HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Greater Toronto Area

Canada Mortgage and Housing Corporation

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New Home Market

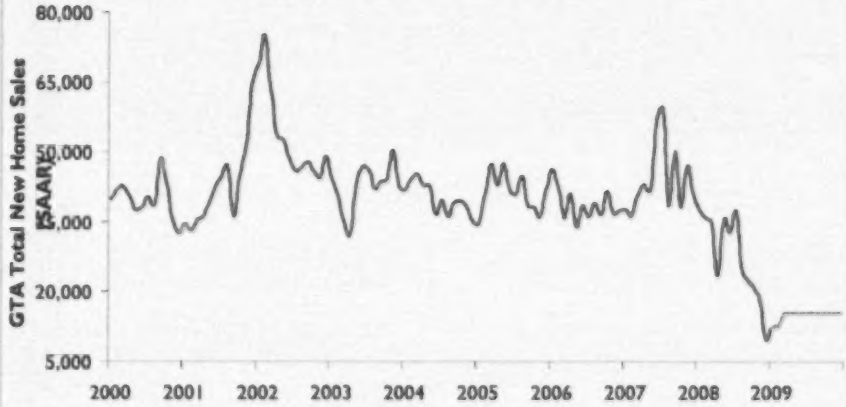
Sales Will Decline

The Greater Toronto Area (GTA) new home market will experience a slower pace in activity during 2009. Total new home sales are expected to drop to 15,500 units this year from 28,000 sales reached in 2008. Pre-construction high-rise sales will reach 7,000 units while low rise sales are expected to hit 8,500 units in 2009, resulting in an increased share of new home sales in the low-rise segment for the first time in six years.

Softening resale market conditions have resulted in an increased supply of lower priced resale homes in many GTA neighbourhoods. Discerning buyers will be able to purchase homes at significantly lower

Figure 1

Softening New Home Sales



Source: RealNet Canada Inc. (www.realnet.ca); CMHC Forecast and Seasonal Adjustment

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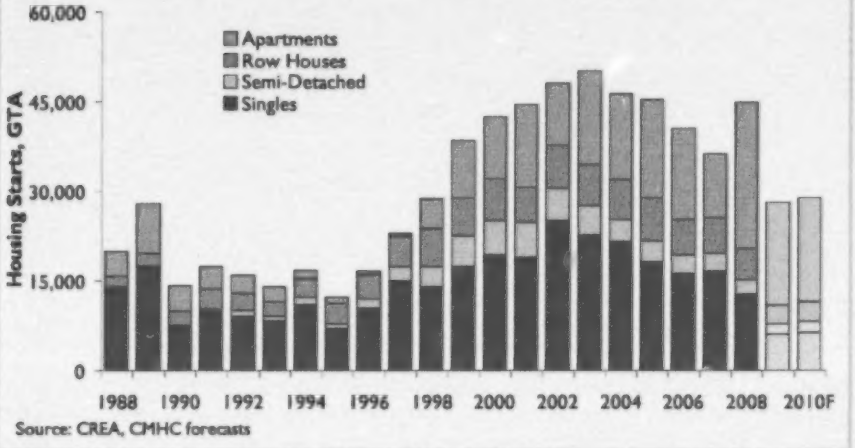
Figure 2

Apartment Starts to Dominate Construction



Source: CREA, CMHC forecasts

prices in the resale market than in the new home market. Reduced pre-construction sales centre traffic will be the result. This substitution effect will slow price growth in the new home market in 2009 — the average price for a new single-detached home will slip by about two per cent to $512,000.

Sales of high rise units will account for about 45 per cent of total sales this year, down from 55 per cent in 2008. While fewer projects are likely to open this year, reducing the total number of condominium units available for sale, project launches and sales are expected to pick up during the latter part of 2009. Improved financing conditions and lower construction costs passed on by builders will bring more competitively-priced units to the market.

Steady immigration to Toronto and favourable demographic shifts will continue to play a major role in increasing demand for new condominium apartments. Lower prices for condominium apartments are especially attractive to newcomers to Canada looking for an entry point into homeownership. An aging baby boomer population gearing up for retirement will also look towards this housing sector as they look to downsize and minimize housing maintenance. A compositional shift in Toronto's employment landscape will further add to demand for more affordable housing. Job losses in the goods-producing sector will mean GTA housing demand will rely more heavily on employment in the lower-paying services industry.

Housing Starts Will Moderate

Fewer new home starts are expected in 2009 as a result of lower new home sales in 2008 and 2009. Compared to an exceptionally strong 2008 that saw 44,810 starts, total housing starts in the GTA will decline to 28,100 units this year and will edge up slightly in 2010. Despite a forecast decline in construction, starts this year and next will be in line with the historical ten-year average.

Condominium apartment unit construction will occupy a greater share of total construction in 2009. Over the last three years, condominium sales have grown at a record pace in Toronto. This resulted in a backlog of units due to start construction and many will continue to start through 2009. In previous years, a shortage of labour contributed to the backlog. However since 2008, completions of condominium units have started to trend up, thereby freeing up labour for new projects to commence construction.

Will Investors 'Walk Away'?

There is no complete data to suggest the level of investor activity in the GTA condominium apartment market. Industry insiders suggest that about one third of the market is investor held. The potential impact on the market by short term investor selling (those individuals who purchase at the pre-construction stage of development with the intention of selling it upon completion and registration) is the issue. As completions trend upwards, an increase in the level of listings has also taken place – suggesting that there is some investor selling. With so many condominium apartment completions due over the next couple of years, there is a risk that more of these investor-held units will arrive on the market, pushing the average price of condominiums downward.

If price declines are significant enough to cause buyers' equity to diminish, there is a risk that some investors who bought at the pre-construction stage will 'walk away'

from their deposits - reminiscent of what happened in the mid-1990s. This outcome remains improbable, as average prices are forecast to decline mildly and not fall by amounts large enough to force investors out of the market. Unlike in the 1990s, buyers are now required to put down on average 15-20 per cent as a deposit. This amounts to large sums of money that buyers are unlikely to forego in favour of 'getting out of the market'. Furthermore, with mortgage interest costs at historic lows and tight rental markets producing low vacancy rates, investors will be more likely to hold their units.

Resale Market

Resale Home Buying Activity Will Ease

Strong economic fundamentals have been a driving force for the GTA housing market over the past decade. Now faced with a rising unemployment rate and declining labour income growth, households are scaling back expenditures on big ticket items, particularly related to housing. As a result, resale home purchase activity will slow down in 2009. This year, GTA home sales will decline by 21.5 per cent to 60,000 units - the lowest level of existing sales since late 90's. 2010 should bring signs of recovery and is forecast to be a turning point for the area's resale housing market. Improving housing affordability, combined with more favorable employment and household wealth situations will gradually entice homebuyers back into the market.

First-time buyers will continue to be a key driver of housing demand this year and next. However, this segment will demonstrate a greater degree of caution while making their home-buying decisions. A deepening economic downturn especially impacts first-time buyers, who tend to have less job security and an inadequate savings cushion to deal with temporary periods of unemployment or underemployment.

Sales of existing homes peaked in 2007 — around the same time the cost of home ownership hit a new high in the GTA. Over the 2003-2008 period, the accelerated rise in average resale prices caused the gap between actual household income and the income required to purchase a home in the GTA to narrow. Buyers responded with a much lower level of sales in 2008.

Over the next two years, the expected home price depreciation, stable household earnings growth and record low mortgage rates should result in more comfortable homeownership conditions. As economic conditions begin to improve next year, buyers are expected to respond to the much improved affordability conditions. The number of existing home sales in the area is forecast to increase in 2010.

Sub-Market Divergences

Even though the same economic developments will be impacting housing markets across the GTA, variations in sub-market conditions will occur. For instance, location will still be a key factor influencing an area's housing demand. Downtown Toronto will remain one of the most desirable places to live in the GTA. The advantages to city-living come with above average home ownership costs, and as a result, many home buyers in this sub-market will increasingly look toward less expensive housing forms such as condo-

Figure 3

Source: CREA; CMHC Forecast

Figure 4

minium apartments. Moreover, the city centre will continue to experience the tightest rental market conditions.

Sub-regional analyses also show that more households will be interested in buying in the relatively more affordable municipalities on the urban fringe, such as Scarborough or Etobicoke. Since these neighborhoods will experience somewhat tighter market conditions, their resale home prices should show more resilience to the market downturn.

Over the past few years, York Region has dominated low-rise new home construction activity (single-detached, semis and rows) in the GTA. Many of these new homes will be reaching the completion and occupancy stages this year, leading more of the area's buyers to list their existing homes in order to facilitate their move up in the market. The growing pace of new listing in this region should result in slightly more moderate market conditions compared to other areas in the GTA.

Prices Will Reflect Changes in Resale Market Conditions

The sales-to-new listings ratio (SNLR) is a good indicator of the level of choice in the existing home market. Throughout 2009, the SNLR is expected to hover around the 40 per cent range, indicating a considerable gap between demand and supply levels from a historical perspective. In this environment, buyers will benefit from more choice and negotiation power, putting downward pressure on prices. In 2009, the average price of a resale home in the GTA will decline by five per cent to $360,000.

New listings will level out in 2010 following a 9 per cent decline this year. With sales set to rise in the GTA next year as demand gradually rebounds, the SNLR will move into more balanced territory and result in an improvement in price declines in 2010.

The slow down in home buying activity and price declines will be widespread across all housing types in the GTA. However, the rates of price moderation will vary. For instance, a difficult economic and financial environment leads to less demand for big-ticket luxury items, leading to fewer homebuyers able or willing to spend the extra dollar for high-end, single-detached homes. As a result, home sales and prices in this segment will see a more dramatic

Figure 5

Figure 6

Source: CREA, CMHC Forecast

drop. Ownership demand will continue to shift towards less expensive home types and sizes, such as condominium apartments, town homes, or even smaller single-detached homes. The compositional shift towards greater sales of lower-priced homes vis-à-vis high-end homes will weigh down average selling prices for the GTA.

Local Economy

Job Growth Slows

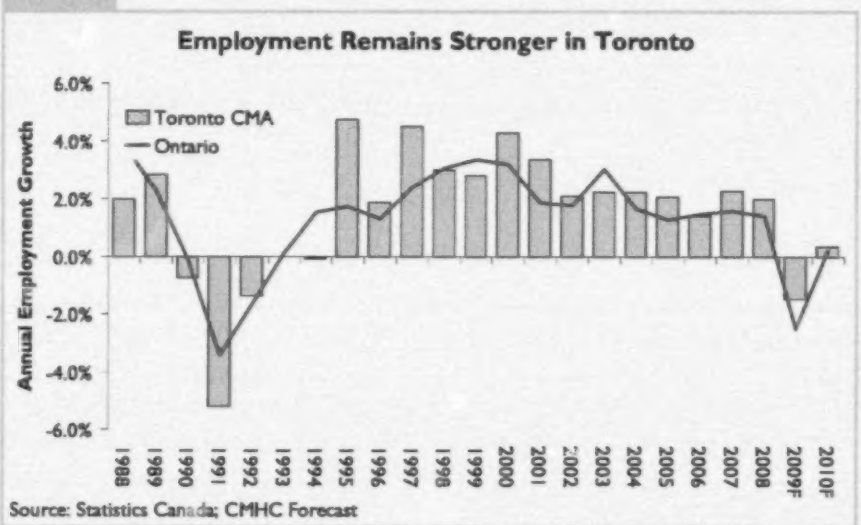
The level of employment in the Toronto CMA is forecast to decline slightly by 1.5 per cent in 2009, following a span of job growth lasting fourteen years and averaging three per cent annually. Many of the factors that helped fuel job growth in recent years will serve to mitigate the challenging environment faced by much of the goods-producing sector. Record-low borrowing costs and ramped-up migration to Toronto next year will provide some support for domestic demand and, in turn, businesses in the services-producing sector. Credit spreads have eased and the prime lending rate will remain near its historic low of 2.3 per cent for the rest of 2009. Net migration into the City will move above trend next year, reflecting higher levels of international migration and slowing inter-provincial outflows. Furthermore, the stimulus spending outlined in the 2009 Budget is expected to boost construction investment and moderate job losses, particularly in the non-residential construction sector.

Toronto has benefited from relatively higher construction employment growth and a greater share of workers in finance, insurance and real estate (FIRE) services—both of which areas boomed during the most recent economic expansion. The province as a whole has a larger share of jobs in the goods-producing sector, which is expected to see more job losses thanks to continued weakness in manufacturing. As a result, Toronto will fare better than the rest of the province in 2009, returning to positive employment growth in 2010. The soft landing for employment and sustained wage growth in the Toronto CMA will help to moderate the decline in existing home sales this year and support an increase in activity in 2010.

Moderate Wage Growth

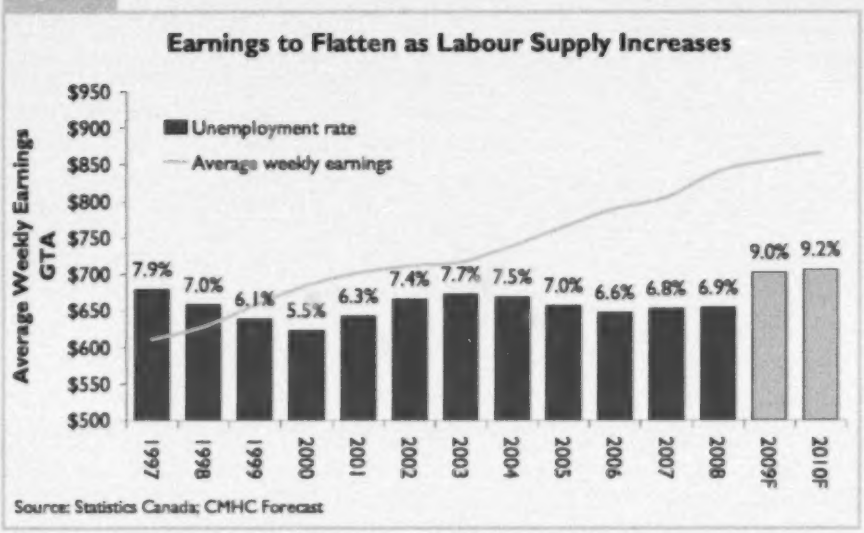
Fewer jobs in 2009 will translate to a higher unemployment rate, releasing

Figure 7



Source: Statistics Canada; CMHC Forecast

Figure 8

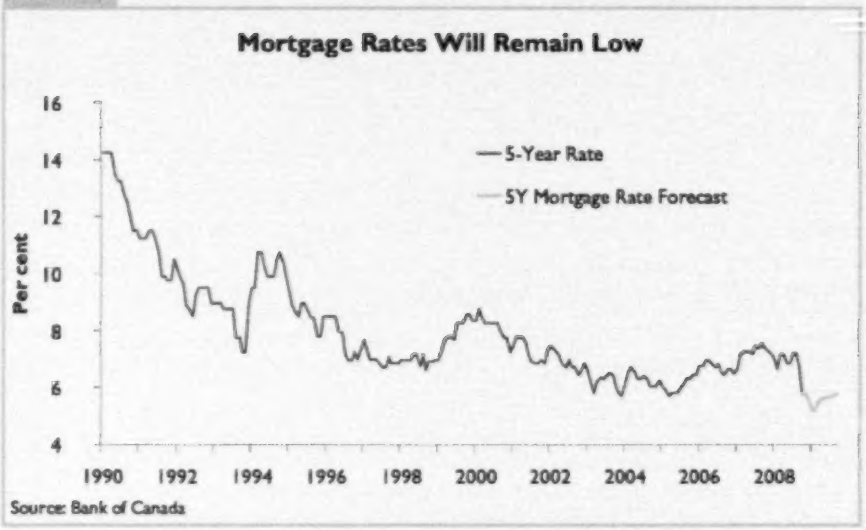


slack in the supply of labour and easing wage growth. Average weekly earnings will continue to rise in 2009, but by a more tepid pace of 1.7 per cent which is more inline with inflation. First quarter figures for Toronto show a marginal year-over-year decline in employment for March, however the labour force continued to grow at annual rate of two per cent, causing the unemployment rate to perk up to nearly nine per cent. This latest bump can be explained by the inability of the job market to accommodate the growing number of people migrating to the city and looking for work. The unemployment rate is expected to hover around nine per cent for the rest of the year, as job losses continue and the number of people looking for work subsides. Looking to 2010, the unemployment rate will edge up slightly as previously discouraged workers return to the job hunt.

The goods-producing sector will be the main drag on total wage growth for Toronto. Job losses, hour reductions and wage concessions will put downward pressure on earnings. Also, the fact that average weekly earnings have historically remained about $70 (or two dollars per hour) higher in the goods-producing industry will put further strain on the Toronto average. There is a risk that wage growth could be challenged further should a deeper and more protracted decline in U.S. activity lead to even tougher times for the CMA's export-sensitive manufacturing sector.

Earnings in the services-producing sector will also be challenged this year as output weakens. On a seasonally adjusted basis, total production from Ontario's service industry declined by an annualized rate of 2.4 per cent in the fourth quarter of 2008. While this represents a much more moderate decline than experienced in the goods-sector, it is the first time in over a decade that the value of services fell, signalling a downturn in domestic demand heading into 2009. Business and labour market conditions in the service sector are expected to improve in the second half of this year, as the monetary and fiscal stimulus being injected into the domestic economy raises consumption. The downside risk to a quick rebound in the service sector depends largely on the state of personal finances following the recent financial and economic turmoil. While consumer bankruptcies are still at fairly benign levels (2.4 for every 1,000 Torontonians), mounting claims have the potential to put further strain on domestic activity.

Figure 9



Source: Bank of Canada

Mortgage Rates

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in government of Canada bond yields. For 2010, the one year posted mortgage rate will be in the 4.75-6.00 per cent range, while three and five year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

Forecast Summary
Greater Toronto Area
Spring 2009

	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	84,842	95,164	76,387	60,000	-21.5	63,500	5.8
MLS® New Listings	158,097	155,093	163,169	149,000	-8.7	151,000	1.3
MLS® Average Price ($)	352,388	377,029	379,943	360,000	-5.2	348,000	-3.3
New Home Market							
Starts – Total (Greater Toronto Area)	**40,611**	**36,230**	**44,810**	**28,100**	**-37.3**	**28,810**	**2.5**
Single-Detached	16,290	16,639	12,757	6,100	-52.2	6,320	3.6
Multiples	24,321	19,591	32,053	22,000	-31.4	22,490	2.2
Semi-Detached	2,996	2,920	2,450	1,700	-30.6	1,750	2.9
Row/Townhouse	5,872	5,926	5,260	3,000	-43.0	3,440	14.7
Apartments	15,453	10,745	24,343	17,300	-28.9	17,300	0.0
Starts - Total (Toronto CMA)	37,080	33,293	42,212	26,850	-36.4	27,500	2.4
Starts - Total (Oshawa CMA)	2,995	2,389	1,987	1,048	-47.3	1,138	8.6
New Home Average Price ($):							
Single-Detached	453,189	496,062	523,564	512,500	-2.1	507,000	-1.1
New Home Median Price ($):							
Single-Detached	396,000	429,900	461,900	452,660	-2.0	448,000	-1.0
New Housing Price Index (1997=100) (Toronto-Oshawa)	3.8	2.7	3.6	-2.0		-1.0	2.5
Rental Market							
October Vacancy Rate (%)	3.2	3.2	2.0	1.8	-0.2	1.7	-0.1
Two-bedroom Average Rent (October) ($)	1,067	1,061	1,095	1,117	-	1,140	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.30	6.90	6.70	4.80	-1.90	5.60	0.80
Mortgage Rate (5 year) (%)	6.70	7.10	7.10	5.30	-1.80	5.90	0.60
Annual Employment Level	2,802,025	2,865,525	2,922,850	2,880,000	-1.5	2,890,000	0.3
Employment Growth (%)	1.4	2.3	2.0	-1.5	3.5	0.4	1.9
Unemployment rate (%)	6.6	6.8	6.9	9.0	2.1	9.2	0.2
Net Migration [1]	53,465	55,300	57,200	60,000	4.9	65,000	8.3%

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

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